CHAPTER-4
INDO-PAKISTAN ECONOMIC RELATIONS
The Partition of India was based on political and religious, rather than economic considerations. In pre-partition India, the areas of the two new countries had a complementary economic relationship which was disrupted by the division. The area that was called 'Western Pakistan' produced more wheat than it consumed and surplus was sent to the deficit areas of India. 'Western Pakistan' used to transport raw cotton to the mills in India for manufacture and in return, received some 500 million yards of cloth, required for its consumption. 'Eastern Pakistan' produced three-fourths of the world's total yield of jute, but the raw jute in pre-partition India was processed in and near Calcutta which became the part of West Bengal. Similarly, 'Pakistan' was dependent on 'India' for an annual supply of three million tons of coal and about 370 million pounds of sugar, and also for iron and steel, which were mined and manufactured in India, but were needed by Pakistan.  

On 5th August, 1947, a tentative arrangement was made with regard to the inter-dominion trade. In the agreement commonly known as the 'Stani Still Agreement', it was proposed that there would be no restriction on the free flow of goods between the two Dominions until 29th February 1948, and no

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1. Dr. J.B. Das Gupta, Indo-Pakistan Relations (1947-1955)

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trade or custom barrier would be set up.² The Partition
council, which considered the matter, also approved the
recommendation that the two governments should agree to
maintain as far as possible the status quo regarding all
matters affecting trade and movements between the two
dominions up to the specified date.³ India interpreted
this agreement as having conferred on each dominion the
right to retain the taxes it levied and collected in
duties, where as Pakistan put forward a claim to a share
of the export duty on jute and also a share of the excise
revenue on the basis of the quantity of excisable goods
consumed in Pakistan territory.

Her arguments as regards jute were that Pakistan
produced nearly 73 percent of the raw jute of both
dominions, and therefore in equity was entitled to a share
of the export duty on jute collected by the Indian
Government.⁴ India pressed for a custom and excise union
and as Pakistan refused to countenance the idea, expressed
a desire to initiate a discussion for the negotiation of a
reasonable long term agreement which would be equitable to
both sides.⁵ In view of India's reluctance to share the jute

². Government of India—White Paper on India-Pakistan Trade
Annexure-I, Stand Still Agreement, Page 1-4.
³. Ibid. Page-3
⁴. Ibid. Page-10-11.
⁵. Ibid, Page-14
and excise duty, the Pakistani representatives on the Partition Council, while approving the above mentioned agreement, reserved the right to revise their attitude. Therefore on 17th October 1947, Pakistan imposed custom restrictions on goods coming from or going into Indian parts. On 14th November 1947, Pakistan imposed duties on raw jute, cuttings and all other kinds, which were exported to India. India retaliated by declaring Pakistan a foreign country for the purposes of tariff and by imposing custom duty on jute and jute manufactures exported to Pakistan on and from 23rd December 1947. Ostensibly meant to augment the revenue receipts of both countries, these duties were considered by the public in both countries as acts of hostility. Inter-dominion trade suffered through all these retaliatory measures and the common people in both countries had to undergo economic hardship.

**Trade Agreements between 1948-1950**

On 26th May 1948, the two countries reached an agreement with a view to facilitating the mutual supply of certain essential commodities. This Agreement was to be valid for one year beginning from July 1948, and provided for an exchange of Indian coal, cloth and yarn, steel, pig iron and scrap, paper and board etc., etc. for Pakistani raw jute, raw cotton, rice, wheat, gypsum, raw hides etc., etc. Under this agreement, the two countries agreed to maintain the prices as fixed in the above agreement. The Agreement was to be reviewed annually and the customs duties were to be abolished after a period of five years.

Agreement, India agreed to limit the volume of her export of Indian grown jute which competed with Pakistan's exports to other countries and also under took to supply steel to Pakistan even though she had to import steel from abroad at higher prices.

In December 1948, when the stock was taken it was found that Indian goods in transit from Calcutta to Assam and Tripura across East Bengal were still being detained under orders of the Provincial Government or their officers. Fresh decisions were, therefore, taken to make the procedure for transit simple and effective, and also facilitate trade and movement in general.

In April 1949, the commerce Minister of India and the finance Minister of Pakistan informally agreed that India should grant rebates of excise duty on all excisable commodities exported to Pakistan and on which she was not still then granting rebates and Pakistan should, in return agree to abolish certain export duties which she had imposed on commodities like bamboos and fish exported to India.

When, however, the agreements in these informal discussions were attempted to be embodied in formal pact, the Pakistan Government found themselves unable to agree to the retention of a clause relating to the long term and apprehensive arrangements in regard to production, manufacture and sale of jute and cotton.

In view of the unwillingness of Pakistan to arrive at any long term understanding, a Trade Agreement was signed on June 24, 1949.\(^8\) India having suffered a substantial adverse balance of trade with Pakistan in 1948-49, because of Pakistan’s importing only a fraction of the cotton textiles quota agreed to in the previous year’s agreement, the new pact was made on a more realistic basis. Against 4,000,000 bales of raw jute and 450,000 bales of raw cotton from Pakistan, India was to supply 150,000 bales of cotton cloth, 80,000 tons of iron and steel and other manufactured goods. In addition, she agreed to supply 170,000 tons of coal each month, to be increased by a further 30,000 tons subject to transport arrangements.

The agreement did not work successfully owing to Pakistan’s reluctance to make purchases from India. On August 17, 1949, the Government of Pakistan imposed an import duty of 15 to 18 percent on cheaper piece goods from India priced at or below Rs. 1-8 per square yard and raised the import duty on higher priced piece-goods to 30 to 36 percent.\(^9\) Pakistan at the same time reduced almost by half the duties on the import of piece-goods from other countries. This discrimination prevented any substantial trade in Textiles. On September 21, 1949, the open General Licence for mill made cloth from India was cancelled by Pakistan along with the A.G.L. for the import of certain other items and on November 12, 1949, India was put on the list of countries from which no imports of cotton textiles

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9. Indian & Pakistani Year Book 1950, page 227
would be licensed.

Matters came to a head with the devaluation of
the Indian currency in September 1949, while India, together
with the other commonwealth countries, devalued her currency
in terms of the U.S. dollar, Pakistan did not do so, as a
result of which its currency was appreciated against the
sterling and the Indian rupee. India had already an adverse
trade balance with Pakistan estimated at Rs. 350,000,000.
and the non-devaluation of Pakistani currency meant for her
an additional expenditure of 44 percent for imports from
Pakistan. India also claimed that Pakistan owed her, at a
very rough guess, a debt of 3 billion rupees, payable in
Indian rupees, which were now worth only two-thirds of the
same amount of Pakistani rupees.

The 'devaluation' issue caused so much friction
that Pakistan refused to ship 4 lakhs of bales of jute
purchased and paid for by the Indian agents before Indian
currency was devalued on 19th September 1949.10India stepped
up the production of jute in India and stopped the supply of
coal to Pakistan in December 1949 as a retaliatory measure.
However, by April 1950, both countries saw the futility of
the trade war and a temporary arrangement between the two
countries was made whereby a limited exchange of certain

10. Government of India's letter to Pakistan Government on
4th November 1949, 'India-Pakistan Trade Relations', Op.
Ct., Page-66.
specified commodities was permitted on both sides.

On April 25, 1950, the trade agreement was concluded. It provided for the delivery by the Pakistan Government of 40 Lakh maunds of raw jute in return for 20,000 tons of jute goods by the Government of India. In addition the two governments agreed to facilitate the purchase by Pakistan from India through normal trade channels of 45,000 bales of cotton textiles, 5,000 bales of cotton yarn of counts 40 and above, 7,000 tons of mustard oil, 500,000 lbs of tobacco, 5,000 tons of steel sheets, 1,000 tons of steel tyres and axles, 12,000 tons of timber, 50,000 tons of cement for East Bengal, and woolen manufactures valued at Rs. (Indian) 50,000.

The agreement further stipulated that trading in the following commodities would not be subjected to any control on either side -

1. Goods to and from India and Pakistan - vegetables, fruits, fish, poultry eggs, milk and milk products and betel leaves.

2. From Pakistan to India - cotton seed, soda ash, hides and skins, handloom cloth and betel nuts from East Bengal.

3. From India to Pakistan - leather, spices, mirabilan, soaps, paints and varnishes, drugs and chemicals, cigarettes and matches, sewing machines, electric fans, silk and art silk fabrics, glassware, umbrellas, silica sand, washing soaps, lanterns and certain
categories of handloom cloth for East Bengal.\textsuperscript{11}

This agreement expired on September 30, 1950, but
the trade between the two countries continued thereafter on
a very small scale. The agreement covered goods, worth
about Rs. 45 crores in all.

\textit{Trade Agreement of February 25, 1951}

An agreement between India and Pakistan was signed
on 25th February, 1951, while the agreement was for the
period ending June 1952, in respect of the main commodities,
special provisions were made for ensuring speedy delivery of
urgently needed supplies in both countries. The main com-
modities that were to be supplied by Pakistan were raw jute,
raw cotton, and food grains while in return India was to
supply coal, steel, textiles and cement. In respect of raw
jute, Pakistan was to grant an export allocation to India of
one million bales before the end of June, 1951 and a further
quantity of 2.5 million of bales for the year July 51 to June
52. To ensure the supplies stipulated for the next four months
the Pakistan Government agreed to sell at an agreed price the
entire stock of about 350,000 bales of raw jute held by the
Pakistan Jute Board and to place an overall quantitative
limit on the export quotas granted to other countries. In
respect of raw cotton Indian mills were free to buy whatever
quantities they could as there were no destinalional quotas
for exports from Pakistan.\textsuperscript{12}

\textsuperscript{11}Indian and Pakistani Year Book and who's who 1951, p. 249.
\textsuperscript{12}Ibid, Page-250.
The agreement, further provided that if the Pakistan Government introduced destination quotas for the export of raw cotton, they would allocate a quota of not less than 400,000 bales of raw cotton to India from the next year's crop. In regard to food grains, India was to obtain approximately 250,000 tons consisting mainly of rice and a small quantity of wheat during 1951. For the next year, Pakistan agreed to supply crop permitting 150,000 tons of rice and 275,000 tons of wheat. From India 600,000 tons of coal was to be supplied to Pakistan before the end of June 1951 and another 1½ million tons between July 1951 and June 1952.

Another feature of the agreement was a list of commodities which was to be placed on the open General Licence both for imports and exports by the two Governments. Included in this list were many commodities in which there was large border trade. In respect of all other commodities, the two Governments agreed to grant to each other export and import facilities not less favourable than those given to any other country in the sterling or soft currency area.

The Government of India, therefore, in altered circumstances agreed that exchange transactions between India and Pakistan would be permitted on the basis of the par value of the Pakistan rupee as declared by the Pakistan government. The war of devaluation was at an end. Further progress was made in 1953, when the imports of coal from India and jute from Pakistan were substantially raised and it was
agreed that the volume of trade between the two countries should be increased.

Another trade agreement was concluded with Pakistan in July 1955. It provided for the continued movement of Jute and Coal. A special feature of this agreement was that it provided facilities for people residing on the border of East Bengal on one side and West Bengal, Assam and Tripura on the other, to buy and sell on a small scale across the border with the usual formalities.

**LIMITED PAYMENTS AGREEMENT 1959**

A limited payments agreement was signed between India and Pakistan on December 3, 1959 in Karachi providing for the exchange of commodities up to a value of Rs. 20,000,000 from either side. The agreement was to be valid for one year, subject to revision once in three months for the ratification of balances. The entire trade was to be carried through private channel on the basis of self-balancing exchange. The payments were to be made in non-convertible Indian rupees.13

This agreement was in addition to the normal trade under the then existing trade agreements between the two countries. According to a schedule attached to the agreement, against the balance of Rs. 10,000,000 from India (against cotton purchase) India was to supply Pakistan with gramophone records, hardware, crockery, glass work, engineering goods, machinery, pharmaceuticals and drugs.

13. *Asian Recorder 1959, Page - 3080*
Pakistan would export to India among other things vegetable seeds, poultry, chrome, newsprint and paper as well as gramophone records. It also provided for the exchange of books and periodicals in Indian and Pakistani languages.

**INDO - PAKISTAN TRADE BETWEEN 1960-1962**

A two year Indo-Pakistan Trade Agreement was signed in New-Delhi on March 21, 1960 paving the way for a considerable expansion of trade and economic cooperation between the two countries. There were two protocols to the Agreement. The first protocol suspended the Limited Payments Agreement signed in Karachi on December 3, 1959 and provided for increased exchange of commodities between the two countries. The values of commodities to be exchanged under this protocol were raised from Rs. 2 crores to Rs. 4.10 crores either way. Under this arrangement Pakistan agreed to supply India jute cuttings to the extent of Rs. 1 crore and also to raise the ceiling for cotton from Rs. 1 crore to Rs. 1.5 crores. 14

India on her part agreed to supply Pakistan iron and steel to the extent of Rs. 1 crore and raised the ceiling for cement and Birla leaves from Rs. 70,00,000 to Rs. 1,50,00,000. The list of items to be exchanged was also enlarged to cover, among others, betel leaves, films, fish (dried and salted) drugs and medicines (Ayurvedic and Unani) rock-salt, betel nuts, Kopak etc., from Pakistan and betel leaves, films, spices, iron & steel, sewing machines and type writers, groundnut-seeds, etc. from India. 15

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15. Ibid.
According to a joint communiqué issued at the end of the
talks, the two delegations agreed that steps would be taken
to facilitate further movement of trade. The groups of
commodities for exchange were also re-arranged. The ceilings
for 1961-62 were to be as follows:

Group A - fresh fruits, fruit plants and
seeds - Rs. 40,000,000.

Group B - raw cotton from Pakistan, bidi leaves,
cement, stone builders and railway
materials etc. from India - Rs. 1,50 crores.

Group C - Live stock including horses from
Pakistan - Rs. 5,00,000.

Group D - Jute cuttings from Pakistan, steel
materials and coal from India - Rs. 1 crore.

Group E - Miscellaneous Commodities - Rs. 1,15 crores.16

It was announced in New Delhi on April 11, that
the Government of India had decided to grant licences for
the year April 1961 – to March 1962 for the import of 18
items from Pakistan as provided for in Protocol 1 to the
Trade Agreement between the two countries concluded in
March 1960. The Protocol had provided for import of these
items from Pakistan against payment in non-convertible Indian
rupees - fresh fruits, dhanicha seeds, Chuna Khari, pearls,
estu and poultry gwar, meal, books and periodicals (in
Indian and Pakistani languages) gramophone records (in
Indian and Pakistani languages) and instrumental music, films
exposed (in Indian and Pakistani languages) fish dry & salted

green spices, betel nuts, drugs and medicines (Unani and Ayurvedic included) black cumin seeds, mother of pearl shells, betel leaves, fluor spar, nylon guts and monofilament and live turtle (tortoise).

**INDO - PAKISTAN TRADE AGREEMENT 1963**

India and Pakistan signed on September 1, 1963, a new Trade Agreement in Karachi under which payments were to be made in sterling and the contracting were not obliged to fulfill the ceiling fixed for the supply of each commodity. These are two significant departures from the previous Agreement. Valid for two years and extended by another year, the Protocol attached to the Agreement provided for the supply by India of 130,000 tons of coal a month and 50,000 tons of stone boulders a year. Pakistan was to supply raw jute including jute cuttings and raw cotton according to India's requirements.

India's export list included Industrial goods and machinery. The volume of Indo-Pak trade fell from Rs. 70 crores in 1951-52 to Rs. 11 crores in 1959. It increased to Rs. 29.35 crores in 1962-63 under the 1960 Agreement. Pakistan's freedom to import was considerably limited by tied dollar loans from U.S.A, which restricted imports to sources prescribed by these loans.\(^{17}\)

Pakistan's export promotion drive under a bonus voucher scheme pushed up the rupee prices of exportable goods 40 percent above international prices. The scheme thus

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\(^{17}\) Asian Recorder 1963 – page-5436
had the effect of discouraging trade between the two countries against rupee payment. When the last agreement expired, India had not succeeded in squaring Pakistan's adverse balance of payments of Rs. 1.6 crores under rupee account.

The growth of light industries in Pakistan had enabled it to stop imports of certain traditional Indian products like cotton piece goods. The offer of tied loans by Japan forced Pakistan to abandon Indian art silk and mixed fabrics for their Japanese substitutes.

In 1950-51, Pakistan's major imports from India were jute manufactures, hydrogenated oil, cotton piece goods, spices, tobacco and coal. Out of these coke and coal counted for Rs. 3.7 crores. In 1963 Pakistan could not only do without Indian jute manufactures and vegetable oils but could also compete with India in exporting these items. In spite of the discouragement of tied loans by Western countries Pakistan imported Indian machinery worth nearly Rs. 2 crores. The concurrence of natural gas in large quantities in Baluchistan enabled West Pakistan to divert its share of Indian coal to East Pakistan. Indian imports from Pakistan the previous year were fish valued at Rs. 5.2 crores and raw jute at Rs. 2.9 crores.

BAN IMPOSED ON TRADE (1965)

Indo-Pakistani Trade was banned by both Governments, a few days after the start of the military conflict on September 5, 1965. The Indo-Pakistani trade during the last
five years ranged from Rs. 23 crores to Rs. 25 crores annually both ways except in 1963-64 when it touched an all time low of Rs. 16 crores. Between April and September 10, 1965 when all trade transactions were suspended, the total turnover was Rs. 10.5 crores.\(^1\)

The Government of India decided on May 26, 1966 to lift unilaterally the ban on trade with Pakistan. The decision was in pursuance of Article 6 of the Tashkent Declaration (10th January, 1966) which said, "The Prime Minister of India and the President of Pakistan have agreed to consider measures towards the restoration of economic and trade relations, communications as well as cultural exchanges between India and Pakistan and to take measures to implement the existing agreements between India and Pakistan." But unfortunately Pakistani leaders were firmly opposed to taking any steps to permit resumption of trade with India.\(^2\) On many occasions India made several proposals in this respect which were not entertained by Pakistan.

Even after the signing of Simla Pact (3rd July, 1972) Pakistan continuously postponed discussion on restoration of travel, communications and trade. Immediately after the Simla Agreement Pakistan wanted to wait for the withdrawal of Indian forces from the areas under their occupation. Five months

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\(^1\) Asian Recorder 1966, page 7136.

\(^2\) Mr. Birendra Singh, Indian External Affairs Minister - Asian Recorder 1969 - page 9159.
later when the withdrawal was completed, India took up the matter with Pakistan. It again hedged on the plea that public opinion in Pakistan was greatly agitated over the question of POWs and discussions could not be held till this issue was resolved.

Restoration of POWs started shortly after the signing of the Delhi Agreement of August 28, 1973. India again took the initiative for starting talks. Thus after about a gap of 10 years India and Pakistan agreed to resume trade and communications.

INDIA - PAKISTAN TRADE EMBARGO LIFTED

1974

According to a protocol signed in New-Delhi on November 30, 1974, India and Pakistan agreed to lift the embargo on trade between the two countries from Dec.7, 1974.

Trade would be conducted in hard currency in accordance with the foreign exchange regulations of each country. After examining the feasibility of having a balanced trade arrangement, the two delegations rejected it as unnecessary. The two countries would extend the most favoured nation-on treatment to each other in accordance with the provisions of the general agreement on trade and tariffs.

To begin with, trade would be conducted on a Government to Government basis or through public sector agencies. However private trade could also take place by mutual agreement in specific instances. At a later stage
the private sector would be given a bigger role.

The two delegations concluded that there were immediate trade possibilities in items like cotton, engineering goods, jute manufactures, iron ore, railway equipment rice and tea. This list was only indicative and by no means exhaustive.

Addressing a news conference later, the Pakistani Foreign trade secretary Mr. Ejaz Ahmed Naik and the Indian Commerce Secretary Mr. Y.T. Shah hailed the resumption of trade as one step forward in implementing the Simla Agreement. Mr. Naik was asked whether the two sides had resolved the matter of seized cargoes and outstanding payments when trade and payments came to a halt in 1965. He replied that he did not think there were really any outstanding claims and that the two countries would "start on a clean slate."[21] Mr. Naik said that the discussion was preliminary in nature and there was no question of fixing volumes or values of trade exchanges. The focus had been on resuming trade rather than going into details. Both sides agreed to buy goods on the basis of competitive price without any political inhibitions. It would be up to individual traders to enter into negotiations and decide what should be bought or sold at what price.

Mr. Shah added that this philosophy was behind the

decision to keep all trade in free foreign exchange and not attempt a balancing exercise. Ceiling under a trade plan would have tended to constrict trade and it was better to let international competitiveness be the deciding factor.

TEXT OF PROTOCOL

The following is the text of the trade Protocol:

"Recalling the provisions of Simla agreement of 1972 to progressively restore and normalise relations between the two countries, reaffirming the desire of their respective Governments for resumption of trade and cooperation in economic and other agreed fields, resolving to explore the possibilities of establishing channels of trade on a mutually beneficial basis, realising the significant opportunities arising out of economic growth in the two countries and desiring to develop and extend the commercial relations between their two countries on the basis of equity and mutual benefit, the delegations of India and Pakistan which met in New Delhi from December 25 to 30 have agreed as follows –

1/ "The necessary steps will be taken by both countries to lift the embargo on trade between the two countries from December 7.

2/ "Trade will be conducted on the basis of free convertible currency in accordance with the foreign exchange regulations in force from time to time in each country."
3/ "Trade between the two countries will be on the basis of the most favoured nation's treatment in accordance with the provisions and decision of the G A T T.

4/ "To begin with and unless otherwise agreed trade will be conducted on a Government to Government basis or through Government controlled Trade Corporations of the two countries for which purposes representatives of the concerned organizations will meet from time to time. In this connection, the immediate possibilities of commencing trade in these commodities was noted: Cotton, engineering goods, jute manufactures, iron ore, railway equipment, rice and tea.

5/ "Keeping in view the importance of immediate restoration of direct shipping services between the two countries for facilitating the movement of goods and trade, it was agreed that experts of the two countries should meet in December to workout details in this regard. Likewise, discussions will be arranged at a mutually convenient time for the restoration of rail links to serve mutual trade.

6/ "A trade agreement will be concluded between India and Pakistan in the near future for which purpose a delegation from India will visit Pakistan in the first week of January."22

TRADE RESUMED

India and Pakistan signed a Trade Agreement and a memorandum of understanding, incorporating among other things, banking arrangements, in Islamabad on January 23, 1975. This was in pursuance of the Simla Agreement of July 3, 1972 and the Trade Protocol of November 30, 1974 signed by the two countries. The Agreement came into force with immediate effect. It was to be valid for one year and extendable by a further period of two years. Representatives of the State Bank of India and the National Bank of Pakistan also agreed upon and signed the working arrangements for remittance facilities between the two countries in regard to trade.23

According to the agreement, trade was limited to public sector agencies only. These agencies were naturally very sensitive to political pressures and hence trade got off to a very modest start. India bought a sizable amount of cotton but Pakistan placed no orders at all for a long time and ultimately bought only a small quantity of bidi leaves and pig iron.24

23. Asian Recorder 1975, page 12473
The agreement was initially valid for one year and was extended by two years. Then it was decided to continue it for six months more, so that the two sides could meet and talk. When the two sides met in April 1977 to discuss trade, the Pakistan team suggested eight items for import by India. They were cotton yarn, gypsum, tobacco, onyx, rock salt, fresh and dry fruits, industrial alcohol, and medical herbs. The list could be enlarged but it was found that Indian import rules came in the way of these being supplied. While there was a lot that could be sold and bought or jointly produced, historical reasons did not speed up the trade flow which was resumed in 1975 after a break of about 10 years. India bought 2,00,000 bales of cotton worth Rs. 22 crores soon after the Trade Agreement. Meanwhile, it was decided that trade would be conducted in accordance with the 1974 Protocol on Government to Government basis from July 1, 1978 as the Agreement of 1975 expired in January 1978 and it was extended upto June 30, 1978 only.

India-Pakistan trade talks failed to result in the signing of a new trade Agreement. The Pakistani side felt that the existing trade policies and regulations of the two countries were "not suited to the conduct of bilateral trade in accordance with the principle of equity, mutual benefit and diversification which formed the basis of resumption of trade between the two countries."

25. Asian Record 1978, page-14360
26. Ibid.
This was clearly a reference to the fact that Pakistan suffered a trade deficit of Rs. 10 crores with India in 1977-78 with imports of 37 crores against exports of Rs. 17 crores. The Pakistani contention, according to Indian officials was technically incorrect. Nowhere in 1975-Trade Agreement was it specified that trade should be balanced. Pakistan itself enjoyed a trade surplus with India in the first year of the trade. India’s position had always been that it should purchase goods from the cheapest sources offering the fastest delivery.

However, within this framework India was willing to listen to Pakistan’s problems, which were political and psychological rather than economic. Pakistan had deficits with a very large number of countries totalling over Rs. 200 crores and its deficits of Rs. 10 crores with India could hardly be a particular matter of concern. Nevertheless, it was India’s interest to view the situation broadly and not just on narrow commercial consideration. The two sides however, agreed to exchange indicative lists of goods in which bilateral trade would prove of mutual benefit.

PRESENT POSITION

The balance of trade has been in Pakistan’s favour ever since the expiry of the India-Pakistan trade agreement in 1978, when imports from India by Private sector were stopped. Protracted negotiations have failed to produce agreement on resumption of private trade which Islamabad fears would flood the market with expensive Indian goods and harm its nascent industry. It also insists on a balance in trade and wants the
two countries to agree on a list of items which could be exchanged by them in the private sector.

With private traders in Pakistan not permitted to do business with India, Islamabad had run up a huge surplus of $63 million in its trade with New Delhi. According to official figures, Pakistan exported goods worth above $65 million to India against a trifling $2 million worth of imports in the nine months between July 1980 & March 1981.27

Former Indian Ambassador to Pakistan, Mr. Natwar Singh, addressing the Lahore chamber of commerce said, "no relationship could be lasting till it had an economic content." While India had not placed any restrictions on trade with Pakistan, Islamabad had unilaterally barred its private sector from doing business with India. "Objections voiced in Pakistan against trade with India were not based on facts but on pre-conceived notion. He rebutted suggestions that open trade with India would result in serious imbalance against Pakistan adversely, hurt her nascent industries, cause malpractices and it was impossible for Pakistan to make a break through in the face of India's restrictive import policy. India was keen to ensure that its exports to other developing countries did not disrupt their domestic industries...In fact it was India which was facing negative trade balance with Pakistan having imported goods worth about Rs. 2 billion in

27. The Hindustan Times - July 10, 1981
the last six years while its exports were only half of it. Statistics showed that India figured among top 10 importers of Pakistani goods. 28

India-Pakistan trade, never a particularly flourishing one, had been declining over the past few years as far as exports from India are concerned. From Rs. 471.4 million worth of imports from India in 1977-78, the figure dropped to Rs. 29.2 million in 1981-82. Pakistani exports to India has fluctuated in a major way, going up to as high as Rs. 962.3 million in 1980-81 and declining to Rs. 195.7 million in 1981-82. 29

The Punjab, Haryana and Delhi Chamber of Commerce and Industry signed a memorandum of understanding with the Lahore and Karachi chambers of commerce and Industry in November 1982 for promoting trade and technical and economic cooperation between the two countries. The two chambers agreed to assist each other in arranging reciprocal trade and market research missions, making beneficial business contacts and in other activities aimed at promoting trade. A 22 member PhD Chamber delegation which visited Pakistan from November 6 to 15 returned with the impression that the business community in Pakistan was in favour of trade on private account and was keen to expand and diversify economic relations with India, while both the private and public sectors in India are free to trade with Pakistan. 29

28. The Hindustan Times - December 27, 1981
29. The Hindustan Times - November 25, 1982
the Islamabad authorities allow only public sector undertakings to trade with India.

The FID Chamber delegation, the first private sector team of its kind to visit Pakistan in about two decades, found considerable misconception in Pakistan about India's import policy—which was considered to be restrictive. India's import policy had to be explained by the delegation often to bring home the point that the Open General Licence (OGL) permits import of thousands of items without any discrimination. Some of the items identified for import from India included 'HOGS' pipes for use in agriculture and irrigation, tractors and implements, treatment plants for drinking water supply, chemical and synthetic resins, auto spare parts, sanitary wares and books. The Indian delegation suggested during discussions the balancing of trade not on a year-to-year basis but over a longer time-frame, such as five years.

The Indian and Pakistani chambers of commerce agreed in February 1983 that a standing committee should be set up to promote bilateral trade and industrial cooperation after an agreed official policy in this regard is spelt out by the Joint Commission. It may be recalled here that the Agreement for setting up the Indo-Pak Joint Commission was signed by India and Pakistan during the seventh Non-aligned summit at New Delhi. The first meeting of the commission was held in Islamabad from June 1, 1983 to June 4. It was pointed out at the meeting that "in spite of permission given recently by Pakistan to its private sector to import items through the

trading corporation of Pakistan, no trade has actually moved
and steps must be taken to get it on." 31

To expand bilateral trade, the two sides decided
to consider concluding a new trade agreement "on the basis
of mutuality of advantage" taking care of major concerns of
each side. 32 The two sides led by the Foreign Ministers of
both the countries - Mr. P.V. Narasimha Rao (India) and
Sahebzaia Yaqub Khan (Pakistan), agreed to encourage visits
of businessmen and industrialists in order to identify
opportunities for collaboration between entrepreneurs of the
two countries and establish projects based on such coopera-
tion. The Indian side suggested sectors of industries in
which the two countries could cooperate in the establishment
of joint ventures in Third World Countries, especially in
North Africa and West Asia. Pakistan noted the suggestion.

At present Pakistan is actively considering the
opening of Wagah border to facilitate increased exchange of
goods with India and a decision to this effect is expected
soon, according to Mr. Manzoorul Hassan, member of the
Pakistani trade delegation, who visited India recently. The
delegation which held discussions with the Punjab, Haryana and
Delhi chamber of Commerce and Industry, said Pakistan was
seriously considering the addition of 8 to 10 more items to
the existing list of 40 items which are permitted for import
into Pakistan by private traders. The release said following
the identification of 40 items of trade in November 1982, the

32. The Times of India, June 5, 1983.
trading corporation of Pakistan (T.C.P) opened 95 letters of credit relating to import of various items notably graphite electrodes, ginger, tamarind and betel leaves. He suggested that India could consider importing from Pakistan such commodities as iron angles, carbon black, urea, hydrochloric acid, DDT, Chlorine and caustic soda. All these matters will be discussed by the sub-commission on trade set up at the first meeting of the Indo-Pakistan Joint Commission which met in Islamabad from June 1-4, 1983 with the objective of expanding bilateral trade. In this way the Indo-Pak trade is yet under study. We can hope for a Trade Agreement by 1984.

SUGGESTIONS FOR INDO-PAK ECONOMIC COOPERATION

Economic relations are a vital component of the process of normalisation of relations between India and Pakistan, that was initiated by the Simla Agreement of 1972 and which has been subsequently buttressed by a number of sectoral agreement. One of these sectoral agreement was the trade agreement of 1974, which was due to be renegotiated in 1978 but has since been limping along while the two countries seek to find a mutually satisfactory basis for the further promotion of commercial contacts between India and Pakistan. During the last few months, there has been a certain intensification of diplomatic activity aimed at accelerating the

33. The Hindustan Times, June 12, 1983
process of normalisation and some attention has been paid
to the shape of future economic relations between the two
countries. There are still some problems in the way which
are being taken up during the discussions from time to time.

One such hurdle is the problem of the so called
'balanced trade'. Although both Pakistan and India do run
more or less serious trade deficits with several countries
and more or less favourable balances with some other countries
one of the main justifications advanced for the suspension of
imports from India by the private sector in Pakistan was the
desire to promote equilibrium between Pakistan's imports from
India and Pakistan's exports to India. In 1975-76 India
imported raw cotton to the tune of Rs. 22.11 crore, but in
1976-77 the cotton crop failed and cotton exports from
Pakistan were negligible resulting in an adverse balance of
trade with India.34 Since then Pakistan has raised the
question of 'balanced trade' each time a new agreement was
under consideration.

If the need for balance becomes the overriding
objective of the trading relationship between the two
countries, then the export potential of the one country
becomes a function of, and is limited by, the actual
exports of the other country. Hence equilibrium between
Indian exports to Pakistan and Pakistani exports to India
will tend to be established at a very low level. The best

34. The Hindustan Times, May 2, 1978
way is, as it is said earlier, to agree upon a longer period such as five years to review the balance and in the mean time new items should be included in the list for import and export.

The present list of 40 items allowed for the private sector imports from India is restrictive and needs to be re-viewed. It was pointed out by Mr. A.K. Jain who led the first F.I.C.C.I. (Federation of Indian Chambers of Commerce and Industry) delegation to Pakistan in February 1983, that "of these 40 items, eight were not being exported by India.
Pakistan's imports of 10 items of this list were negligible and hence in practical terms, there remained only 22 items that could be imported from India."35 Pakistan can draw up a list of items whose exports from India can be banned to protect pak industry. The rest of the field should be left open for India just as it is for other countries. The present commercial exchanges do not reflect the full potential since the two way trade can easily be stepped up from the present Rs. 76 cores to Rs. 500 cores in about three years. The Indian industry can offer at more economical prices some of the goods which Pakistan is importing from the Western and other countries. Similarly, there are several items including fertilisers, soja ash, carbon black and lowgrade coal that India can buy from Pakistan. The private sectors of the two countries should also be allowed to deal directly so as to avoid delay. India is in a position to supply a variety of items such as machine tools, tractors, automobile parts, electrical equipments, chemicals and pharmaceutical products,

35. The Hindustan Times - February 27, 1983.
electronic goods, components, agricultural equipments and other consumer items which Pakistan is importing from other sources.

Both the countries should try to establish intra-regional trade conditions. For example, as Mr. Mani Shankar Aiyar, consul General of India, put it at the seminar for senior business executives organised by creative Management Service at Karachi on 18th May, 1980, "If one of the countries of the region is found to be importing, say, raw cotton, from a source outside the region and another country of the region is exporting that same commodity, the attempt would be to promote intra-regional trade by identifying a regional import need and matching it to a regional export potential. We could consider the pattern of Pakistan imports and Indian exports and establish the list of goods which Pakistan is importing from the rest of the world which could also be imported from India and Vice versa."

Lately there has been a demand for joint ventures and industrial collaboration between the two countries. According to Mr. Jain, the Pakistani industrialists in Islamabad, Lahore and Karachi showed interest in technical collaborations since it was pointed out that Indian technologies were more suited to the conditions in Pakistan. Although India and Pakistan as countries have not so far intensively interacted on the basis of existing complimentarities, there are a large number of individual Indians and Pakistanis who have learnt to live and work with each other.

in countries like those in the Gulf. Also, there are those Indians and Pakistanis who have together worked for export markets in Europe, North America and Japan and can therefore be able to share with each other marketing experiences and suitable production strategies. A ni, finally, there is that unique Indo-Pakistani feature of divided families which can enable an Indian uncle to join hands with his Pakistani nephew and thus make an international venture out of what any where else can be a small family business.

Economic relations between any two countries, particularly two countries like India and Pakistan which have behind them a history of friction and hostility, can never develop in isolation from the general political, social and cultural environment. The development of economic relations will necessarily be an element in the over-all development of relations between the two countries. Economic choices, therefore should not be made on the basis of purely abstract economic criteria. But we can hope that the consideration of these suggestions will eventually give birth to a system of trade relations and economic cooperation between India and Pakistan which is rational, nondiscriminatory and based on a mutuality of interests within the frame work of national priorities.

The scope for meaningful Indo-Pak economic cooperation is practically endless. Collaboration is possible in power generation steel production, as well as in the
production of cement fertilizer and railway rolling stock. Beneficial common endeavor is also possible in the areas of agriculture, irrigation and soil conservation and in the construction of transport and communication links to facilitate trade, traffic and information flows between the two countries. The long shadow of the past must not be allowed to darken the future for ever. The two sub-continental nations must begin a grand alliance for progress.

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